HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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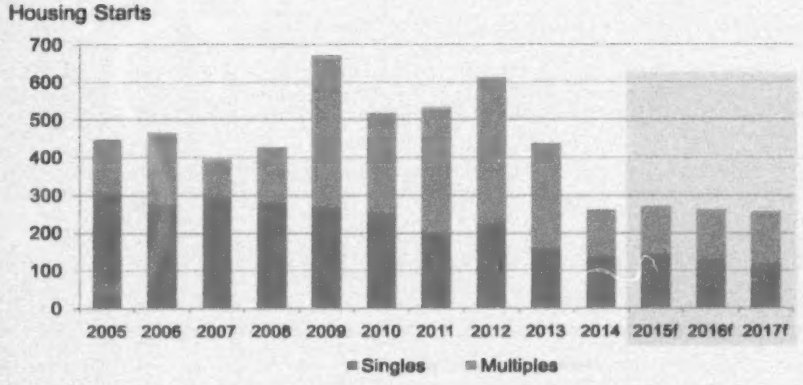
Charlottetown Highlights[1]

- Single-detached housing starts will slow as new homes continue to face competition from both the resale and rental markets.
- Expect modest growth of MLS® average price due to elevated levels of active listings.
- International immigration will continue to support demand for rental housing.
- Gains in employment will return in 2016.

Figure 1

Singles Starts to Slow, Multiples to Move Higher
Charlottetown CA



Source: CMHC Starts and Completion Survey, CMHC forecast

[1] The forecasts included in this document are based on information available as of September 28, 2015.

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New Home Market: Demand for New Homes to Slow

Demand for new homes in the Charlottetown Census Agglomeration (CA) will be supported through the forecast horizon by modest employment and population growth, in addition to low mortgage rates. At the same time, increasing competition from a well-supplied resale market is weakening that same demand. As a result, total starts in 2015 will surpass year-earlier levels, reaching 270 units, and then dip to 260 and 255 new homes in 2016 and 2017 respectively.

Movements within the singles and multiples segments of Charlottetown's new home construction market will, for the most part, offset one another. The forecast is for moderation in single-detached housing starts and a slight increase multiples starts.

Single-detached starts have been moving steadily lower over the past decade. They peaked at 331 units in 2004 and were sitting at 138 units in 2014. The reduction in demand for new single-detached homes is attributed to a variety of factors. Potential buyers of single-detached homes are being presented with a greater variety of housing options, including new and existing homes, and a variety of rental housing options. In addition, the supply of resale homes has grown over the years as the aging population increasingly chooses lower maintenance housing options located in more urban-based centres. Expect single-detached housing starts to increase slightly to 145 units in 2015, and then fall back to 130 and 120 new homes over the subsequent two years.

Multiples starts are forecasted to gradually move higher, offsetting the modest decline in single-detached starts. Despite the expected growth in multiples starts, levels will remain well below the current 10-year average of 237 new multiple-family units as vacancy rates are expected to remain above their long-term historical average of 4.4 per cent, reflecting a more modest demand for rental accommodations. Expect multiples starts to come in at 125 units in 2015, 130 units in 2016 and 135 units in 2017.

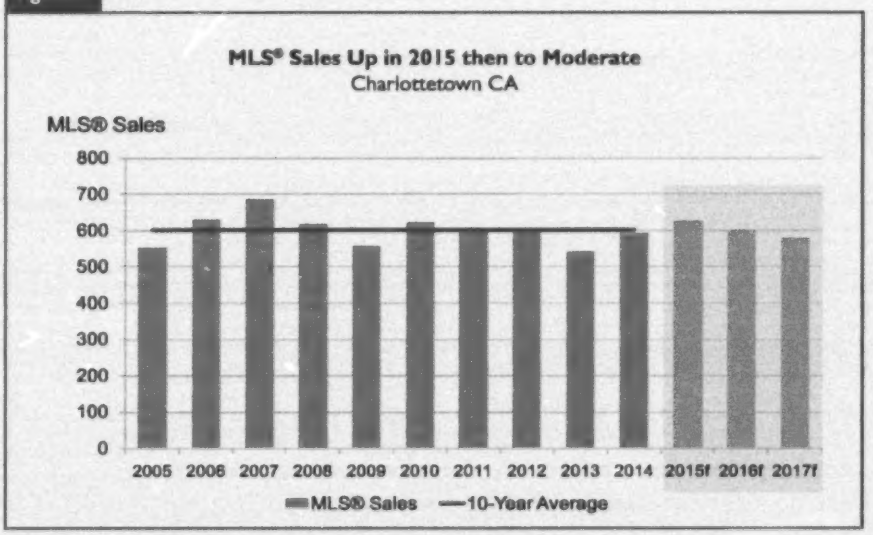
New home construction so far this year is above year-earlier figures. In the Charlottetown CA there have been 226 housing starts during the first nine months of 2015, compared to 169 starts over the same period last year. Although more new homes have broken ground this year, the growth has been concentrated on the multiples side, particularly for new apartment units. Apartment starts are expected to constitute the majority of multiples starts in 2015 and the remainder of the forecast horizon.

Existing Home Market: Buyers Market Conditions to Prevail

Residential MLS® sales[2] in the Charlottetown area[3] are expected to move higher in 2015, increasing by 5.9 per cent over 2014 levels to 625 MLS® transactions. Despite the forecasted increase, Charlottetown's resale market still depicts the characteristics of a buyers' market. The excess supply of homes available for sale within the resale market will prevent any momentum from taking hold over the forecast horizon. MLS® sales are forecast to decline to 600 and 580 transactions over the next two years.

The average price of a MLS® listed residential home is forecast to decline by 1.1 per cent to $203,500 in 2015. Prices over the first nine months of this year have been on par with year-earlier figures. The fourth quarter of 2014, however, saw an uncharacteristic increase in the number of higher end home sales. These sales pushed the average price of a residential home to

Figure 2



Source: CMHC Starts and Completion Survey, CMHC forecast

[2] Residential sales include single-detached, condos and mini/mobiles.

[3] Charlottetown area is defined by PEI Real Estate Boundaries of District 4 (Charlottetown, Spring Park, West Royalty), District 5 (Sherwood, East Royalty, Hillsborough Park, Parkdale), District 6 (Cornwall, North River & Winsloe), and District 7 (Stratford/Bunbury).

$205,834, an increase of 6.9 per cent over 2013 figures. A repeat of this concentrated period of higher end home sales is not expected to repeat as 2015 comes to an end. Average residential MLS® prices will report slow and gradual growth as we go through 2016 and 2017.

Active listings, which represent the number of MLS® listed homes available for purchase, remain elevated relative to current levels of demand. This excess supply is largely attributed to the evolving needs of the aging population as they shift from homeownership into rental or other housing options. This issue is further compounded by the fact that population growth within the age cohorts most commonly associated with homeownership is near zero[4]. Weaker employment growth and stiff competition from the various rental housing options are reducing homeownership demand despite historically low mortgage rates. These factors are expected to remain consistent throughout the forecast period.

Rental Market: Falling Vacancy Rates, Flat Rents

The Charlottetown CA experienced a surge in multiples starts between 2009 and 2013 as low vacancy rates, higher levels of migration and low borrowing costs encouraged the development of new multiple-family dwellings. Near the end of this timeframe, changes to the Provincial Nominee Program substantially slowed the rate of international migration to the Island. This resulted in a supply of new rental units that exceeded the needs of the market, causing vacancy rates to rise. The October 2008 apartment vacancy rate was 2.3 per cent and grew to 7.9 per cent in 2013. The slowdown in multiples starts in 2014 has allowed the market to continue to absorb the stock of new units. As a result, the apartment vacancy rate fell back to 5.9 per cent as of October 2014.

The evolving housing needs of Charlottetown seniors and more modest but positive net international migration figures will continue to place demand-side pressure on vacancy rates. The recent announcement of no residential rent increase for Prince Edward Island tenants for 2016 set by the Prince Edward Island Regulatory & Appeals Commission (IRAC) will also support demand for rental housing across the forecast period. This decision will reduce rental turnover in 2016 and discourage potential homebuyers from making the move between rental and homeownership. This increased rental demand will be met by a modest inflow of new rental units. The pace of rental apartment construction has slowed over the past 21 months leaving only 126 rental apartment units under construction at the end of September 2015. As a result, vacancy rates are forecast to drop to 5.5 per cent in 2015, 5.2 per cent in 2016, and 5.0 per cent in 2017.

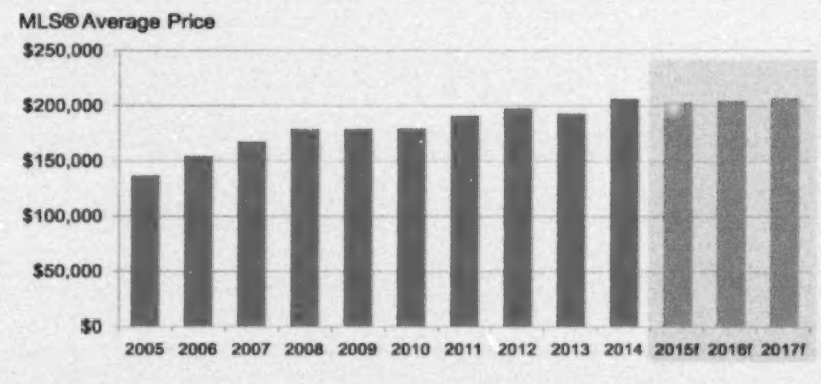
Supply and demand would suggest the lower levels of apartment rental construction combined with increasing demand for rental accommodations would move average rent levels higher. However, IRAC's decision for a zero per cent increase in residential rent levels for 2016 will temper this growth. Expect average rents to rise, with modest growth being driven by renter turnover and the absorption of new rental units. Average rents for two-bedroom apartment units are forecast to be $850 in October 2015, and then rise modestly to $855 and $865 over the subsequent two years.

Economic Trends: International Immigration to Drive Population Growth

Economic fundamentals for Charlottetown in areas such as employment and population growth

Figure 3

Expect a Dip in MLS® Average Price Followed by Slow Growth
Charlottetown CA



Source: CMHC Starts and Completion Survey, CMHC forecast

[4] Canada's Population Estimates: Age and sex, July 1, 2015, CANSIM Table 051-0001, Statistics Canada.

will support the housing market over the forecast period. While an aging population will shape the future direction of the housing market, in the short-term, current economic conditions are expected to influence the housing choices of households.

Charlottetown's job market softened in 2014 as total employment dipped 0.5 per cent as gains made in full-time employment were more than offset by lower part-time employment levels. Employment numbers thus far in 2015 have trended lower, with declines cited for both full-time and part-time employment. Expect annual employment levels to end this year 0.7 per cent below 2014 figures. As the provincial economy slowly gains momentum in 2016 and 2017, employment gains will return to Charlottetown.

A low Canadian dollar will benefit the tourism sector, which is a major industry in the region both directly and indirectly. In the first eight months of 2015, non-resident vehicle traffic on the Confederation Bridge was up 4.8 per cent over year-earlier figures, Northumberland Ferries showed a 5.9 per cent increase, and motorcoach traffic has grown by 13.2 per cent. In contrast, the Charlottetown Airport has seen a year-to-date drop of 3.2 per cent over 2014 figures and cruise ship traffic fell by 10.6 per cent over the same period. These traffic flows are consistent with statistics on total overnight stays that show Canadians have taken on a greater proportion of visitations to Prince Edward Island this year[5]. In addition, the weaker Canadian dollar should also support growth from aerospace, biosciences and seafood processing.

Population growth is a key factor determining changes in housing demand. With births closely matching deaths, the natural rate of population change in Prince Edward Island is negligible. This trend is expected to turn negative in the medium term as family sizes continue to decline. International migration, however, has been a significant contributor to population growth. Net international migration has added nearly 1,500 persons to the province in each of the last two years, with many of these persons locating in larger urban centres such as Charlottetown. These gains, however, are being largely offset by a net outflow of residents to other areas of the country. Net interprovincial migration was recorded at –1,283 persons in 2014. Lower oil prices and expectations of near-term employment gains are expected to reduce the outflow of Prince Edward Island residents going forward and will contribute to stable demand for housing.

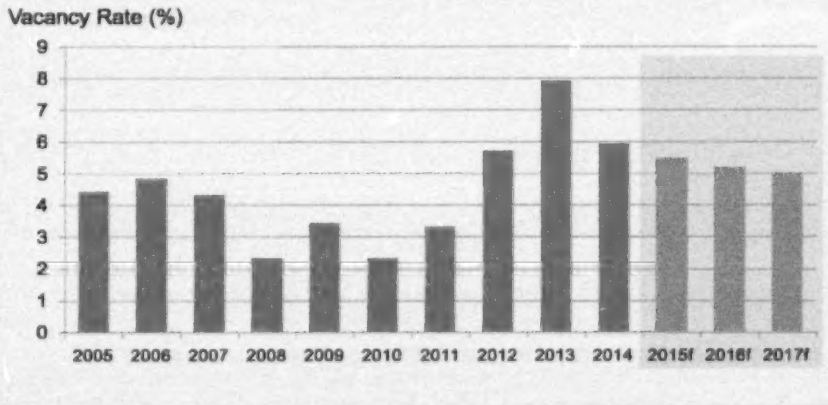
Mortgage Rates are expected to Begin to Rise Moderately from Current Levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Figure 4

October Apartment Vacancy Rates Heading Down
Charlottetown CA



Source: CMHC Starts and Completion Survey, CMHC forecast

[5] All tourism-based figures sourced to Tourism PEI – Strategy, Evaluation & Industry Investment Division.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Employment levels will decline in 2015, increasing the demand for the rental housing options. However above-average vacancy rates in Charlottetown will minimize the demand for additional rental units to be added to the universe. In the following years, moderate job creation will return, supporting demand for all types of housing.
Income	Real average weekly earnings have remained stable in the first three quarters of 2015, which will provide some support for housing demand going forward.
Net Migration	Net migration supports the demand for rental housing options but not for homeownership. This imbalance exists as net international migration is positive while net interprovincial migration is negative.
Natural Population Increase	Overall population growth in Prince Edward Island is minimal. An aging population is expected to impact the tenure of housing demand moving forward.
Resale Market	Demand for new homes is facing increasing competition from the resale market where prices have moderated and inventory is high.
Vacancy Rates	Continued positive international immigration and the IRAC regulated residential rent increase of zero per cent will spur increased demand for rental accommodations. Although above-average vacancy rates will move lower, average rent levels will remain flat. This will not encourage growth in rental unit construction.

Forecast Risks

This outlook is subject to some risk including:

- A prolonged period of lower oil prices could reduce the number of people moving out of the province to other part of Canada, boosting the population and growing housing demand.
- Revisions to immigration programs could reduce the attractiveness of Prince Edward Island and/or Canada. Reduced net international migration figures would slow the demand for housing and see vacancy rates rise.
- A stronger US dollar and growing US economy could boost tourism- and export-related industries across Prince Edward Island, fuelling growth in tourism-, retail- and manufacturing-based employment.
- Canadian debt levels remain elevated relative to income levels, leaving households vulnerable to adverse shocks. Should interest rates rise quickly or employment conditions deteriorate, some households that are more heavily indebted might be forced to liquidate their assets, which could include their primary residence. This would add to the supply of housing and place additional downward pressure on prices.

Forecast Summary Charlottetown CA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	224	160	138	145	5.1	130	-10.3	120	-7.7
Multiples	388	278	121	125	3.3	130	4.0	135	3.8
Starts - Total	612	438	259	270	4.2	260	-3.7	255	-1.9
Average Price ($):									
Single-Detached	272,844	286,344	303,812	308,000	1.4	313,000	1.6	318,000	1.6
Median Price ($):									
Single-Detached	250,000	269,450	272,450	275,000	0.9	278,000	1.1	280,000	0.7
New Housing Price Index (% chg.)	0.2	0.5	-1.1	0.2	-	0.5	-	0.5	-
Resale Market									
MLS® Sales	603	541	590	625	5.9	600	-4.0	580	-3.3
MLS® New Listings	1,061	1,148	1,214	1,200	-1.2	1,150	-4.2	1,100	-4.3
MLS® Average Price ($)	196,703	192,527	205,834	203,500	-1.1	205,000	0.7	207,000	1.0
Rental Market									
October Vacancy Rate (%)	5.7	7.9	5.9	5.5	-0.4	5.2	-0.3	5.0	-0.2
Two-bedroom Average Rent (October) ($)	803	804	836	850	1.7	855	0.6	865	1.2
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	35,450	36,950	36,775	36,500	-0.7	36,700	0.5	37,000	0.8
Employment Growth (%)	1.9	4.2	-0.5	-0.7	-	0.5	-	0.8	-
Unemployment Rate (%)	8.1	9.0	8.3	8.2	-	8.3	-	8.4	-
Net Migration (P.E.I.)	1,056	36	603	1,000	65.8	750	-25.0	750	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
** Percent change > 200%

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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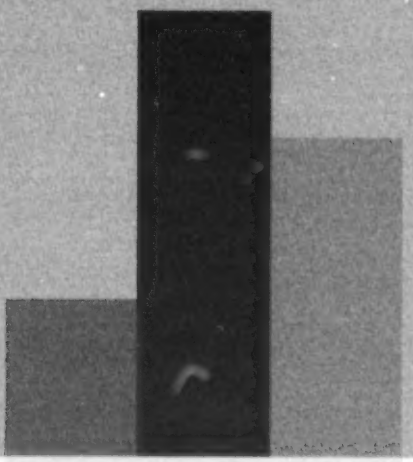

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